

Message Text

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ACTION EB-08

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FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 3832

INFO AMEMBASSY BELGRADE

AMCONSUL BRISBANE

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MELBOURNE

AMEMBASSY PARIS

AMCONSUL PERTH

AMCONSUL SYDNEY

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E.O. 11652: N/A

TAGS: EAIR, AS

SUBJECT: AUSTRALIA'S INTERNATIONAL CIVIL AVIATION POLICY

REF: CANBERRA 05469 (NOTAL)

1. SUMMARY: PROMINENT PRESS REPORTS SUGGEST THAT AUSTRALIA-NEW ZEALAND AIR FARE IS TO BE HALVED AND THAT KLM, UTA, AND JAT ARE TO BE SHUT OUT OF AUSTRALIAN MARKET. AUSTRALIAN DEPARTMENT OF TRANSPORT DENIES ACCURACY OF THESE REPORTS, AND DUTCH AND YUGOSLAV EMBASSIES HAVE NO OFFICIAL INDICATION THAT THEY HAVE ANY VALIDITY WITH RESPECT TO THEIR OWN FLAG CARRIERS. HOWEVER, EMBASSY IS CONCERNED THAT WITH SO MUCH SMOKE, THERE MUST BE SOME FIRE. EMBASSY BELIEVES THAT OUTLINE OF AUSTRALIAN STRATEGY IS BECOMING CLEAR, AND THAT PROSPECTS FOR U.S.-AUSTRALIAN AGREEMENT DEPENDS IN LARGE PART ON WHETHER

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BRITISH REJECT AUSTRALIAN PROPOSAL FOR AUSTRALIA-U.K. RUN. END SUMMARY.

2. "THE AUSTRALIAN" OF JULY 18 CARRIES A REPORT THAT QANTAS AND AIR NEW ZEALAND ARE CONSIDERING CUTTING PRESENT A DOLS 290 AUCKLAND-SYDNEY ROUND-TRIP ECONOMY RATE FROM A DOLS 290 TO ABOUT A DOLS 155. ARTICLE CLAIMS THAT AIR NEW ZEALAND HAS

BEEN TRYING FOR SOME TIME TO GET LOWER FARES BUT THAT AUSTRALIAN GOVERNMENT POLICY HAS STOPPED QANTAS AGREEING. ARTICLE STATES, "IT IS UNDERSTOOD AGREEMENT COULD NOW BE REACHED ... AVIATION OFFICIALS IN AUCKLAND BELIEVE THERE IS A GOOD CHANCE LOW FARES COULD BE INTRODUCED WITHIN THREE MONTHS, IN TIME FOR THIS YEAR'S TRANSTASMAN HOLIDAY TRAFFIC."

3. ALLEGED PROPOSAL IS FOR "BULK" OR "SPLIT CHARTER" FARES, APPARENTLY ON SAME SORT OF BASIS AS AUSTRALIANS ARE PROPOSING FOR QANTAS AND BRITISH AIRWAYS ON AUSTRALIA-UK RUN. THIS WOULD SUGGEST THAT REGULAR ECONOMY AND FIRST CLASS FARES WOULD NOT BE REDUCED.

4. DEPARTMENT OF TRANSPORT (ROB ELDER) DENIES THAT ANYTHING IS AFOOT ON GOVERNMENTAL LEVEL OR THAT AUSTRALIAN GOVERNMENT HAS BLOCKED LOWER FARES, DOUBTS THAT ANY FARE CHANGES WILL BE EFFECTED WITHIN THREE MONTHS, AND EXPLICITLY STATES THAT DISCUSSIONS WITH NEW ZEALAND WILL NOT BE MOVED UP AHEAD OF THOSE WITH U.S. THERE IS NOTHING SPECIAL, SAYS ELDER, ABOUT THE NEW ZEALAND ROUTE WHICH WOULD LEAD TO PREFERENTIAL TREATMENT. ONLY RECENT GOVERNMENT ACTION RESPECTING NEW ZEALAND WAS THAT NEW ZEALAND GOVERNMENT HAD, ACCORDING TO ELDER, PROPOSED HIGHER FARES, AND HAD BEEN TOLD BY AUSTRALIANS THAT MATTER COULD NOT BE CONSIDERED UNTIL POLICY REVIEW COMPLETED.

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5. WITH RESPECT TO POSSIBLE EXCLUSION OF THREE EUROPEAN CARRIERS FROM AUSTRALIA, FIRST MENTIONED IN JUNE 12 "FINANCIAL REVIEW" ARTICLE DESCRIBED REFTEL (PARA 3), MOST RECENT IN A SPATE OF ARTICLES APPEARED IN JULY 14 "AUSTRALIAN." KEY PORTIONS OF TEXT ARE AS FOLLOWS:

"FEDERAL CABINET HAS APPROVED A PLAN TO BAR THREE INTERNATIONAL AIRLINES FROM AUSTRALIA AS PART OF A CONTROVERSIAL PACKAGE TO CUT FARES.

"THE PLAN FORMS THE BASIS OF A DEAL THAT AN AUSTRALIAN NEGOTIATING TEAM HAS PUT TO THE BRITISH GOVERNMENT...

"CABINET IS FIRMLY BEHIND THE PROPOSAL TO SHUT THE DOOR ON THE DUTCH AIRLINE KLM, FRANCE'S UTA AND THE YUGOSLAV CARRIER JAT.

"A CANBERRA SOURCE SAID LAST NIGHT THAT THE DECISION WAS TAKEN BEFORE THE AUSTRALIAN TEAM LEFT FOR TALKS WITH THE BRITISH CIVIL AVIATION AUTHORITY IN LONDON...

"THERE IS NO DOUBT THE PROPOSAL HAS THE FULL BACKING

OF CABINET, ESPECIALLY THE PRIME MINISTER,' THE SOURCE SAID.
'WITHOUT HIS BLESSING IT WOULD NEVER HAVE GOT OFF THE
GROUND.'

"THE PLAN, WHICH WOULD CLOSE ALL QANTAS OFFICES IN
EUROPE, EXCEPT LONDON, FRANKFURT, ROME AND POSSIBLY ATHENS,
IS EXPECTED TO BRING HUGE PROTESTS FROM THE LARGE DUTCH
AND YUGOSLAV POPULATIONS IN AUSTRALIA.

"WITH QANTAS NO LONGER OPERATING IN FRANCE, HOLLAND,
AND YUGOSLAVIA, AUSTRALIAN LANDING RIGHTS IN THOSE COUNTRIES
WOULD NOT BE NEEDED...

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"THE FIRST FIRM HINT THAT THE AXE WAS POISED OVER
EUROPEAN AIRLINES CAME THREE DAYS AGO WHEN THE PRESIDENT OF
KLM, MR. SERGIO ORLANDINI, MADE IT CLEAR HE HAD FAILED TO
WIN ANY ASSURANCE FROM THE TRANSPORT MINISTER, MR. NIXON,
THAT THE DUTCH AIRLINE WOULD BE ALLOWED TO CONTINUE ITS
SERVICE TO AUSTRALIA.

"MR. ORLANDINI, WHO SAID FURTHER DISCUSSIONS WOULD TAKE
PLACE LATER, SAID OF HIS MEETING WITH MR. NIXON: 'HE
LISTENED TO US, AND THAT WAS IT.'"

6. DEPARTMENT OF TRANSPORT (ELDER) IS UNWILLING TO COMMENT, OTHER THAN TO SAY THAT POLICY STUDY HAS A NUMBER OF OPTIONS AND THAT NO DECISIONS HAVE BEEN MADE.

7. DUTCH EMBASSY ECONOMIC OFFICER STATES DUTCH CANNOT LIMITED OFFICIAL USE

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BELIEVE AUSTRALIAN GOVERNMENT WOULD TAKE SUCH DRASTIC ACTION IN VIEW OF GOOD STATE OF DIPLOMATIC RELATIONS. HOWEVER, HE COMMENTED THAT EUROPEAN AIRLINES AREN'T MAKING MUCH ON AUSTRALIAN RUN, AND THAT IF NEW, LOW FARES WENT INTO EFFECT, AIRLINES WOULD THEMSELVES HAVE TO DECIDE WHAT TO DO. THIS TIES IN WITH APPREHENSION OF YUGOSLAV EMBASSY, WHICH ALSO DOES NOT BELIEVE AUSTRALIANS WOULD TERMINATE LANDING RIGHTS, BUT WHICH THINKS AUSTRALIANS MIGHT REFUSE TO ALLOW SUBSTITUTION OF DC-10'S FOR 707'S. WITHOUT DC-10'S, YUGOSLAVS SAY, JAT WOULD BE SQUEEZED OUT BY ECONOMIC PRESSURES WITHOUT NEED FOR AUSTRALIANS TO FORMALLY TERMINATE LANDING RIGHTS.

8. EMBASSY BELIEVES THAT OUTLINE OF PROBABLE AUSTRALIAN STRATEGY IS NOW BECOMING CLEAR. PUBLIC OPINION REQUIRES THAT AUSTRALIAN GOVERNMENT ALLOW LOWER FARES. QANTAS HAS, THEREFORE, DEVISED ITS BULK SALE PLAN, WHICH HAS TWO KEY ELEMENTS. REGULAR ECONOMY AND FIRST-CLASS FARES WILL BE MAINTAINED AT LEVEL HIGHER THAN WOULD RESULT FROM OPEN COMPETITION. REDUCED FARES COMPETITIVE WITH BUDGET FARES OF OTHER AIRLINES WILL BE OFFERED VIA DEVICE OF BULK SALES PLAN. LATTER WOULD PRESUMABLY SATISFY PUBLIC OPINION.

9. QANTAS PLAN WILL MAXIMIZE RETURNS, BUT BECAUSE IT IS A NON-COMPETITIVE OUTCOME, IT REQUIRES LIMITATIONS ON ACCESS TO MARKET. THIS WILL BE ACHIEVED FOR DISCOUNTED BULK FARES BY FORGIDDING STOP-OVERS, AND IT WOULD BE ASSISTED FURTHER BY SOLE-CARRIER DESIGNATION AND SQUEEZING OUT OF COMPETING THIRD-COUNTRY AIRLINES.

10. THOUGH FOREGOING IS, OF COURSE, SPECULATIVE, IF IT IS REASONABLY CLOSE TO MARK, BRITISH AGREEMENT IS SINE QUA NON FOR IMPLEMENTATION OF ENTIRE POLICY. WITHOUT UNDERPINNING TO QANTAS FORTUNES THAT WILL RESULT FROM BRITISH ACCORD, LIMITED OFFICIAL USE

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AUSTRALIAN GOVERNMENT WILL PRESUMABLY BE COMPELLED BY PUBLIC PRESSURES FOR FARE REDUCTIONS TO ADOPT ONE OF THE OTHER OPTIONS ADVANCED IN STILL UNRELEASED AVIATION POLICY REVIEW.

11. ACCORDING TO DEPARTMENT OF TRANSPORT (JOHN ROWLAND), AUSTRALIANS ARE PRESSING BRITISH TO SEND NEGOTIATING TEAM TO AUSTRALIA AS HARD AS WE ARE PRESSING AUSTRALIANS. THIS WOULD SUGGEST THAT BRITISH MAY HAVE SERIOUS RESERVATIONS ABOUT IMPLICATIONS OF AUSTRALIAN PROPOSAL, WHICH WOULD, OF COURSE, EXCLUDE FREDDIE LAKER IN ADDITION TO AFFECTING ADVERSELY TWO OF THE UK'S EEC PARTNERS.

12. IMPLICATIONS FOR U.S.- AUSTRALIAN NEGOTIATIONS ARE OBVIOUS. EVEN HAD THEY GONE TO WASHINGTON, AUSTRALIAN TEAM CLEARLY WOULD NOT HAVE BEEN PREPARED TO BE ACCOMMODATING AS LONG AS POSSIBILITY EXISTED FOR BRITISH ACCORD. AND IF AUSTRALIANS AND BRITISH DO REACH AGREEMENT, AUSTRALIANS ARE LIKELY TO DIG THEIR HEELS IN EVEN FURTHER VIS-A-VIS THE U.S. HOWEVER, IF BY AUGUST BRITISH HAVE EITHER NOT SENT A NEGOTIATING TEAM OR HAVE SENT TEAM WHICH FAILS TO REACH AGREEMENT, THEN TABLES WILL CLEARLY HAVE BEEN TURNED, AND AUSTRALIAN GOVERNMENT WILL BE UNDER PRESSURE TO COME UP WITH SOMETHING WHICH WILL SHOW TO AUSTRALIAN PUBLIC THAT THEY ARE INDEED BEING RESPONSIVE TO GENERAL DESIRE FOR LOWER FARES.
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